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## Brief for the DDCI

21 October 1983

## MOROCCO

Domestic Politics

The moderate pro-Western regime of King Hassan--who is 53 years old--appears secure for the near term but will face growing domestic challenges. Deteriorating economic conditions coupled with rising expectations among the burgeoning and youthful population are sources of popular discontent.

-- There is restiveness among key groups, particularly students, the labor movement and some religious fundamentalists, who are searching for issues on which to challenge the King.

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-- There is a potential for renewed civil disorder like the food-price riots in Casablanca in June 1981, in which some 100 persons died, as the impact of recent austerity measures are realized.

-- Organized opposition to the regime remains basically in disarray and demoralized, however, since the King's crackdown on leaders and rank-and-file following the Casablanca riots.

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King Hassan has fairly effective security and military establishments to face these difficulties. The death of General Ahmed Dlimi, the King's intelligence and security adviser, earlier this year does not appear to have had a major affect on these forces. The King also is adept at playing off opponents against each other.

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Moroccan-Spanish Relations

Rabat's delicate relationship with Madrid appears to be on an even keel for the moment, but Spain recognizes that it is only a matter of time before Morocco focuses on the Spanish enclaves of Ceuta, Melilla, and several islands along Morocco's northern coast that Rabat claims as its territory.

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-- Hassan has suggested that Rabat might link disposition of the enclaves question to that of Gibraltar. Madrid, however, views Ceuta and Melilla as integral parts of Spain to be defended vigorously.

-- Rabat and Madrid recently concluded a new fishing agreement that could yield \$550 million in medium-term aid to Morocco.

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-- Morocco, however, stands to suffer economically when Spain is admitted to the European Community, and transit of Moroccan goods across Spain may be restricted.

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#### Moroccan-Algerian Relations

King Hassan and Algerian President Bendjedid met last February to discuss normalization of bilateral relations that were cut in 1976 over the Western Sahara dispute. Both leaders recognize that regional stability serves their long term economic and political interests and that those interests are threatened by the Sahara dispute and the machinations of Libya.

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-- The deeply held, incompatible views on the Western Sahara issue, however, are not likely to change easily or quickly and until solved, will continue to be a major constraint on improvement in bilateral relations.

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#### Western Sahara

Despite a more regular dialogue between Morocco and Algeria over the eight-year-old Saharan dispute, a settlement in the near term seems unlikely. Although acquisition of the Sahara remains a popular cause among Moroccans, the seemingly "unwinnable" war could eventually cause domestic trouble for the King.

-- There is growing uneasiness in Morocco regarding the impact of the war on the economy. Rabat's serious financial difficulties, caused in part by the war, may increase discontent with the regime.

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-- While Algeria, the Polisario Front's chief supporter, is more amenable to a political settlement, it still insists on direct Moroccan-Polisario negotiations. King Hassan refuses to give the guerrillas this kind of recognition and has generally been unwilling to take any substantial risks in the OAU-sponsored negotiations. Informal talks between Algiers and Rabat seem to be temporarily stalemated.

-- Renewed Polisario military activity in recent months is likely to continue as the Front attempts to force Morocco into direct negotiations.

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#### Economic Situation

Morocco's economy has suffered from slow growth in recent years and a rapid rate of population increase. Double digit inflation has eroded the standard of living since 1977. Rabat's financial position has been severely weakened by its heavy dependence on foreign petroleum, several poor grain harvests, a depressed world market for phosphates--the nation's primary export--and the continuing conflict in Western Sahara.

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-- Erratic rains last spring reduced the 1983 cereal harvest

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by 25 percent, prolonging the need for heavy grain imports. Drought has affected three of the past four harvests.

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-- Morocco may not be able to secure all of the required financing needed to cover its large current account deficit and debt service obligations this year or in 1984. Agreement on a new \$315 million IMF Standby loan for 1983-84 has been reached but it requires stiff belt tightening measures including reductions in food subsidies--a politically sensitive issue.

-- Outstanding foreign debt has reached \$11 billion, equivalent to two-thirds of GDP and double the 1978 level. Debt service costs reached 39 percent of receipts from exports of goods and services last year and are expected to reach 46 percent this year. Rescheduling of part of Morocco's foreign debt is currently underway. Reduced access to financial markets will continue to curtail the Five-Year Plan (1981-1985).

-- Disbursements of Saudi aid--\$495 million in 1982--fell below the levels of the prior two years. Saudi assistance will probably continue at reduced levels, as Riyadh must come to terms with reduced oil revenues.

-- Morocco is in arrears to the United States for FMS payments and faces suspension of its FMS allocations under the Brooke Amendment if upcoming obligations are not met.

-- The Moroccan dirham has depreciated by 21 percent since 1 January 1983, aggravating the nation's balance-of-payments problems. Foreign exchange reserves now cover less than one week of merchandise imports.

-- Export prices and volumes for phosphates are down again this year; phosphate export earnings will be off by as much as \$100 million offsetting savings from the \$5 per barrel drop in oil prices. [redacted]

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The economic malaise probably will continue through 1986 as financial constraints will remain acute limiting investment and development.

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-- The phosphate market is likely to strengthen as the world economy rebounds, but it will be several years before Morocco reaps the benefits from its heavy investment in the domestic phosphate industry. Morocco controls about three-quarters of proved world phosphate reserves.

-- Morocco's oil shale and fisheries resources--among the world's richest--provide potential for economic recovery in the late 1980s. [redacted]

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Relations with the US

Moroccan-US relations are good, but expanding bilateral ties, initially well received in Morocco, are beginning to be questioned by some Moroccans who believe that the country's material expectations are not being met.

-- In pursuit of Moroccan interests, King Hassan often adopts foreign policies that parallel or coincide with US interests.

-- The King, during his visit to Washington in May 1982, approved a Moroccan-US access and transit agreement for US Rapid Deployment Forces.

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-- The US is a major source of military equipment for the Moroccan armed forces, but Morocco's inability to meet FMS repayment obligations may disrupt further assistance.

-- King Hassan, Chairman of the Arab League and its Fez peace committee, welcomed President Reagan's Middle East initiative and has urged other Arabs to accept it as a starting point for negotiations. [redacted]

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